

DRAFT

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

I.D. # 12701
RESOLUTION G-3492
February 5, 2014

R E S O L U T I O N

Resolution G-3492. Southern California Gas Company submits its Annual Compliance Report to demonstrate that gas procurement activities to maintain Southern System reliability were in compliance with the standards, criteria and procedures described in Rule No. 41 of its tariffs.

PROPOSED OUTCOME: This Resolution approves the submitted cost of the procurement activities attributable to the purchase and sales transactions taken to maintain Southern System reliability during the period of September 1, 2012 through August 31, 2013. All transactions were deemed reasonable under Gas Rule No. 41.

SAFETY CONSIDERATIONS: This resolution evaluates activities to maintain system reliability. These activities have an indirect impact on safety since they are taken to avoid curtailments to customers, some of whom may provide essential services.

ESTIMATED COST: Net cost of \$7.9 million

By Advice Letter 4547 filed on October 1, 2013

SUMMARY

Southern California Gas Company (SoCalGas) submitted Advice Letter (AL) 4547 on October 1, 2013 in compliance with Decision (D.) 09-11-006 and Rule No. 41, providing an Annual Compliance Report (ACR) for the period September 1, 2012 through August 31, 2013. **This resolution approves the submitted costs of the procurement activities attributable to the purchase and sales transactions and related BTS charges made by SoCalGas to maintain Southern System minimum flow requirements.** There were 315 purchase transactions. Of these, 310, representing 98% of all purchases met the requirements of either Section 13

or Section 14 of Rule No. 41. Of the remaining five purchases, three met the requirements of Section 15 and two met the requirements of Section 16 of Gas Rule No. 41. All of the sales met the requirements under Section 13 of Gas Rule No. 41.

BACKGROUND

The SoCalGas Southern System requires a minimum amount (which can vary depending on conditions) of flowing supplies to operate effectively. When deliveries into the southern part of the SoCalGas gas transmission system (the Southern System) become too low, it is difficult to efficiently and safely operate and assure deliveries to customers. The SoCalGas Gas Acquisition Department had previously assured such flowing supplies, using core customer assets. **D.07-12-019 approved the transfer of responsibility for managing minimum flow requirements for system reliability from the SoCalGas Gas Acquisition Department (GA) to the Utility System Operator (SO).** As required by D.07-12-019, the SoCalGas SO took over the responsibility for managing these minimum flows as of April 1, 2009.¹ D.07-12-019 also approved the following System Operator tools for meeting Southern System requirements:

- the ability of the SO to buy and sell gas on a spot basis, as needed, to maintain system reliability;
- authority and the requirement to conduct at least one annual request for offers (RFO) or open season process consistent with the SO needs; and
- authority to approve (sic) an expedited Advice Letter approval process for contracts that result from an RFO or open season process.

Resolution G-3474 for AL 4535, approved an additional System Operator tool allowing the SO to move natural gas from Blythe, California to Otay Mesa,

¹ As stated in Rule No. 41, the mission of the Utility System Operator is to maintain system reliability and integrity while minimizing costs at all times. The Utility System Operator denotes all of the applicable departments within SoCalGas and San Diego Gas & Electric Company responsible for the physical and commercial operation of the pipeline and storage systems specifically excluding the Utility Gas Procurement Department.

California in order to support minimum flow requirements on the Southern System.²

Pursuant to D.09-11-006, SoCalGas must submit an Annual Compliance Report to demonstrate that its natural gas procurement activities undertaken to support Southern System reliability were in compliance with certain standards, criteria and procedures. In D.09-11-006 the Commission adopted a Settlement Agreement in Phase 2 of the SoCalGas/SDG&E 2009 Biennial Cost Allocation Proceeding (BCAP). Under that Settlement Agreement, and as specified in Rule 41 of SoCalGas' tariff, SoCal Gas must submit an Annual Compliance Report to the Commission to demonstrate that the "Operational Hub"³ gas procurement activities during the preceding twelve months were in compliance with the standards, criteria and procedures that are described in Sections 9 through 17 of Rule No. 41. The Annual Compliance Report must be submitted by a Tier 3 Advice Letter.

In AL 4547, filed on October 1, 2013, SoCalGas asserts that its gas procurement activities to maintain Southern System reliability during the twelve months September 1, 2012 through August 31, 2013 were in compliance with the standards, criteria and procedures specified in Sections 9 through 17 of Gas Rule 41. During this period, SoCalGas reports gas purchase costs of \$76.999⁴ million to meet Southern System minimum flow requirements. All purchases

² Operation of this tool is presented in Section 15 of Gas Rule No. 41. Decision 07-12-019 notes that supplies delivered at Otay Mesa may assist in fulfilling the minimum flowing gas supply requirement at Blythe. The SoCalGas System Operator has successfully used deliveries at Otay Mesa to support Southern System requirements and Resolution G-3474 approved deliveries of supplies to Otay Mesa from Blythe as a System Operator "tool." Otay Mesa is located at the California/Mexico border, approximately 10 miles inland from the Pacific Ocean. Blythe is located at the California/Arizona border, approximately 120 miles east of Palm Springs.

³ The SoCal Gas Operational Hub is a component of the SoCalGas System Operator. The Operational Hub conducts the activities involved in meeting any physical flowing supply requirements as determined by the Gas Control Department. The Gas Control Department is the SoCalGas unit responsible for operating the utility pipeline and storage system.

⁴Total purchase costs have increased from \$8.2 million for the period September 2010 to August 31, 2011 to \$76.9 million for September 2012 through August 31, 2013. The net (after sales) costs have increased from \$3.7 million to \$6.6 million. The cost increases have been driven by increases in volume due in significant part to the shutdown of the SONGS.

were spot purchases of gas. The gas was then resold at the SoCal Citygate for \$70.356 million, yielding a net cost, \$6.643 million. An additional \$1.234 million in transportation costs were incurred.⁵ The total net cost, consisting of \$6.643 million for the net cost of purchases after resale and \$1.234 million for transportation, was \$7,876,555.

SoCalGas Rule No. 41 specifies detailed criteria and processes for reasonable spot gas purchases and sales made by the Operational Hub. SoCalGas asserts that all sales and most purchases were within the automatic safe harbor price limits described in Section 13 of the rule and that the remainder met the requirements of Section 14, 15 or 16. SoCalGas comments that it has met the criteria and followed the necessary processes for reasonable spot gas purchases and sales detailed in Rule 41.

NOTICE

Notice of AL 4547 was made by publication in the Commission's Daily Calendar. SoCalGas states that a copy of the Advice Letter was sent to the parties listed on Attachment A of AL 4547, which includes parties to Application 08-02-001.

PROTESTS

Advice Letter 4547 was not protested.

DISCUSSION

The Commission approves all of the sales and purchases presented in AL 4547. SoCalGas' gas procurement activities intended to maintain Southern System reliability during the September 1, 2012 through August 31, 2013 period were in compliance with the conditions specified in Rule No. 41 for such purchases and sales. All of the procurement costs of \$76,999,571 were incurred through 315 spot purchases. In addition, \$1,233,768 in Backbone Transportation Service (BTS) transportation costs were incurred. There were 321 sales of the purchased gas

⁵This equates to an average BTS charge of 6.4 cents/dth for the period covered by the ACR compared to a tariff rate of 11.04cents/dth in 2012 and 13.764 cents/dth in 2013.

yielding \$70,356,785. After these sales, the total net cost, including transportation, was \$7,876,554.

Rule No. 41 specifies the criteria for determining if the net cost of spot gas purchases/sales was incurred reasonably. These criteria are spelled out in Sections 13, 14, 15, and 16 of the rule. All spot gas purchases and sales must be made only when the Operational Hub is the “provider of last resort”, i.e., when the Operational Hub has used all other available tools to meet the minimum supply requirements.

Section 13 of the rule states that the purchases and sales must be within a specified range (+/- 10%) of the Intercontinental Exchange (ICE) price index. For purchases and sales made outside the specified range, Section 14 requires that if volumes available on ICE meet or exceed the minimum flow requirements, transactions for the volumes offered through ICE shall be deemed reasonable.

Under Section 14, when less than the required volumes are available on ICE, offers from at least three differing suppliers will be obtained for comparison. Based on these SoCalGas will accept the offers with best prices available to meet the quantities required.

Section 15 provides that when the Gas Control Department determines that when deliveries at Otay Mesa are necessary to meet minimum flow requirements, such requirements may be satisfied either through spot purchases at Otay Mesa or through the movement of supplies from Blythe to Otay Mesa. The movement of supply will be deemed reasonable if (1) the cost of moving the supplies is less than or equal to the difference between the ICE Weighted Average Index for the Blythe and the cost of spot gas available for purchase at Otay Mesa for the relevant flow date, or (2) if sufficient spot supplies are not available for purchase at Otay Mesa for the relevant flow date, and the movement fills some or all of the shortfall between supplies needed at Otay Mesa and supplies available for purchase at Otay Mesa.

Section 16 states that purchases and sales other than those described in Sections 14 and 15 will not be deemed unreasonable but shall be subject to review and any requests for explanation by the Commission’s Energy Division in conjunction with the Annual Compliance Report.

As required by Resolution G-3480, AL 4547 provided the following table showing a breakdown of purchase transactions and associated dollar amounts by the Sections of Gas Rule No. 41 with which SoCalGas asserts each transaction complies.

Southern System Purchases, September 2012-August 2013

	#	%	\$	%
Section 13	266	84	\$64,665,761	84
Section 14	44	14	\$10,875,071	14
Section 15	3	1	\$672,580	1
Section 16	2	1	\$786,16	1
Total	315		\$76,999,571	

A review of Attachment C to AL 4547 confirms that the 266 purchases and all sales shown as meeting Section 13 criteria and the 44 purchases shown as meeting Section 14 criteria are accurately characterized and therefore deemed reasonable.

The three transactions representing the movement of supplies from Blythe to Otay Mesa were made consistent with Section 15 requirements and are deemed reasonable. These three movements were in response to a request from Gas Operations for supplies at Otay Mesa. Prior to making these movements, SoCalGas determined, by contacting suppliers, that supplies were not available on the dates needed.

SoCalGas provided sufficient explanation to deem the remaining two purchases as reasonable. As provided by SoCalGas, the first transaction, TC 1571 occurred on Christmas Day, December 25, 2012 with an unexpected request from Gas Control for 100,000 Dth of Ehrenberg gas for Cycle 4 of that day. The unexpected request was the result of maintenance issues causing El Paso Pipeline to deliver less than expected and creating the shortfall. SoCalGas contacted four suppliers, two of whom did not respond. Of the two responding, one could not deliver the requested supplies because of a force majeure at an El Paso compressor station.⁶ The second transaction, TC 1625 was the result of an

⁶ SoCalGas notes and Energy Division Staff confirmed an El Paso posting indicating the force majeure condition.

increase, late in the day on New Year's Eve, December 31, 2012, by Gas Control of 92,301 dth and a request for a purchase of 92,000 dth. At 8:15 P.M. Pacific Time SoCalGas sent requests to its suppliers but received no responses. Requests were sent again at approximately 6:00 AM on January 1 and two responses for the entire quantity were received. By 7:30 A.M. no additional responses were received and the Operational Hub accepted the available supplies in advance of the 8:00 A.M. deadline. SoCalGas notes that no additional responses to its requests were received. SoCalGas also notes that the cost was \$0.05 higher than the Section 13 safe harbor maximum and that the entire purchase only exceeded the maximum by \$4,876.

COMMENTS

This is an uncontested matter in which the resolution grants the relief requested. Accordingly, pursuant to PU Code 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

FINDINGS AND CONCLUSIONS

1. Pursuant to D.09-11-006 and Rule 41, SoCalGas must submit an Annual Compliance Report by October 1st to demonstrate that its natural gas procurement activities undertaken to support Southern System reliability were in compliance with certain standards, criteria and procedures.
2. SoCalGas submitted, in compliance with D.09-11-006 and Rule 41, AL 4547 on October 1, 2013 providing an Annual Compliance Report for the period September 1, 2012 through August 31, 2013.
3. SoCalGas incurred \$76,999,771 in procurement transaction costs to support Southern System reliability between September 1, 2012 and October 31, 2013. These costs were incurred through 315 spot purchases.
4. All of the purchases of gas met the requirements to be deemed reasonable under Rule No. 41 and should be approved. Of the 315 spot purchases made, 266 met the criteria of Section 13 of Rule No. 41, and 44 met Section 14 criteria. Three purchases met Section 15 criteria. The remaining two were, based on explanations provided by SoCalGas, deemed reasonable under Section 16 of Rule No. 41.
5. The Operational Hub made gas sales that resulted in a net cost, including transportation costs, of \$7,876,555. All of the sales met the criteria of Section 13 of Rule No. 41. These sales are deemed reasonable and should be approved.

9. SoCalGas AL 4547 should be approved.

THEREFORE IT IS ORDERED THAT:

1. Southern California Gas company Advice Letter 4547 is approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on February 5, 2014; the following Commissioners voting favorably thereon:

PAUL CLANON
Executive Director